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August 14, 1974

Honorable Vincent Thomas
Chairman, Joint Legislative
Audit Committee
Room 4126, State Capitol
Sacramento, California 95814

Dear Mr. Chairman:

Pursuant to the request of the Joint Legislative Audit Committee, we have conducted a special study of a contract between the Assembly Rules Committee and the National Institute for Applied Research to determine if performance has complied with the terms of the contract.

BACKGROUND

The contract in question, LCB 17841, dated August 28, 1973, requires the National Institute for Applied Research to conduct a comprehensive analysis of the structure and consequences of the present method of timber taxation, to make recommendations for alternative forms of timber taxation, and to make reports to the Assembly Committee on Natural Resources and Conservation by specified dates. In exchange for these services, the contract calls for payment to the National Institute of \$39,900 in five installments. The contract also requires the National Institute to acquire the services of two specified professors in the Department of Forestry at the University of California at Berkeley.

The Institute commenced operation on December 6, 1972 but was not incorporated until February 13, 1974, some six months after the legislative contract was signed. Notwithstanding an express provision in the contract requiring the identification of the contractor if other than an individual, the contract did not denote whether the Institute was a corporation, partnership, etc.

All incorporators of the Institute are currently employees of the Interdisciplinary Systems Group (ISG), which is a research agency on the University of California at Davis campus, supported by a \$400,000 grant from the National Science Foundation. Dr. Kenneth E. Watt, of U. C. Davis, who heads the ISG, stated that he had encouraged formation of the National Institute for Applied Research because there was need for a vehicle which could be used to make available to public and governmental agencies the results of the pure research done by the ISG and was aware of the Institute's activities since its formation.

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Such activities include one other completed contract with the Legislature, for a cost of \$4000. An audit of the financial records of the Institute shows that after all expenses, exclusive of overhead, there would be an approximate \$13,500 accruing to the Institute at the conclusion of the contract under consideration.

PERFORMANCE UNDER THE CONTRACT

In performing the study, the Institute consulted with county assessors, surveyed counties for their timber taxation practices, evaluated timber taxation practices in other states, and did normal library research and interviews with authorities in the field of timber taxation. In addition, the Institute made a detailed analysis of the timber taxation practices in Mendocino and Butte Counties.

The procedure for performing the work on the study involved a series of sub-contracts between the Institute and other parties. For example, the legislative contract required the Institute to contract for the services of two professors of the University of California, Professor Henry J. Vaux and Dr. W. L. McKillop.

The Institute contracted with the University of California at Berkeley for consulting services to be provided by Professor Henry J. Vaux for an amount not to exceed \$4000. The agreement reimburses the University at a rate of \$137 daily for Professor Vaux's time plus approved travel expenses. Professor Vaux, as an employee, bills the University which in turn bills the Institute for reimbursement. In other words, Vaux's salary remains the same but a portion of it is paid indirectly by the Institute.

The Institute has reimbursed the University in an amount of \$2993.42 for services provided by Dr. Vaux.

According to the Institute, the duties of Professor Vaux were to:

1. Assist in planning the study
2. Direct investigators to knowledgeable persons in the field who could provide information
3. Assist in formulating policy for the direction of this study
4. Edit, review, and provide some written material in connection with this study.

The Institute also negotiated for the consulting services of Dr. W. L. McKillop, Associate Professor, Department of Forestry and Conservation at the University of California at Berkeley. This was a private consulting

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agreement for the period October 1, 1973 to June 30, 1974. Compensation was fixed at a flat rate of \$1000, with \$750 paid on January 1, 1974 and the balance due June 30, 1974. There was an extension signed May 13th which provided for additional consulting services after June 30th on a day-to-day basis for a maximum ten days at a rate of \$100 daily. The same extension to the contract called for one and one-half days at the \$100 rate to provide written and verbal assistance in presenting the final report to the Legislature.

Participating in the research and preparation of the reports (also under contract), were Kenneth Fowler and Bruce Krumland, graduate students at U. C. Berkeley. Fowler was granted his Ph.D. at Berkeley in 1974 and has accepted an appointment as Associate Professor, Department of Forestry, University of Toronto, next year. Krumland was to provide "computer programming, research and report writing", etc.

Professor McKillop estimated the graduate students would perform 75 percent to 90 percent of the writing of the report, as well as the analysis of the accumulated data.

According to the Institute, the final report was to be written by Fowler and Krumland, with input and supervision from Professors Vaux and McKillop. An Institute employee was to correlate and coordinate the product of Fowler and Krumland into the final form.

The legislative contract required the Institute to submit a written progress report on October 31, 1973, a second written progress report on February 28, 1974, and a final report on June 15, 1974. The reports were submitted in a timely manner, as follows: October 29, 1973, February 28, 1974, and a final report June 14, 1974. The Institute is preparing a supplement report containing documentation and supporting data for the conclusions contained in the June 14, 1974 report. This supplementary information is expected to be submitted in mid-August.

COMMENTS BY OTHERS OF CONTRACT PERFORMANCE

During the course of our study, various county assessors and university personnel were contacted and asked to evaluate the methodology and quality of the report.

The consensus was that the methodology used in making the study was valid and the quality of the final product was acceptable. There were, however, some exceptions taken by different county assessors to the conclusions reached in the report. The staff of the Assembly Committee on Natural Resources and Conservation termed the report, "a fine report, put together very well, and well worth the money".

QUESTIONS RAISED

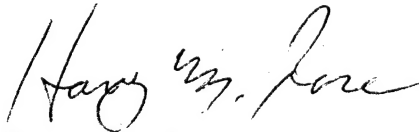
The only question of significance raised during our study of the contract was why the Assembly Rules Committee did not contract directly with the

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University rather than, in effect, contracting with the University through the Institute. This question was apparent from the fact the basic work on the report was performed by graduate students of the University under guidance and direction of professors of the University. This question was also raised by University officials whom we interviewed.

According to the Chief Administrative Officer of the Assembly, the contract was let with the assistance of the Assembly Office of Research which solicited proposals from 15 parties, only two of which responded. The Institute was selected because it promised university involvement. The University was not considered for direct contract because excessive overhead charges (51 percent) would inflate the cost of the contract and the University contract administration personnel are extremely difficult to deal with.

Sincerely,

A handwritten signature in cursive script, appearing to read "Harvey M. Rose".

Harvey M. Rose
Auditor General

HMR:JLB:bl

cc: Jerry L. Bassett
Al Coffey
Jerry Silva